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FM AMEMBASSY QUITO

TO SECSTATE WASHDC 9624

INFO AMCONSUL GUAYAQUIL

CONFIDENTIAL SECTION 1 OF 2 QUITO 2445

E.O. 11652: GDS

TAGS: BEXP ELAB EC

SUBJ: WESTINGHOUS/CEBOR ON VERGE OF WITHDRAWAL FROM MAJOR WATER-PURIFICATION PROJECT--WITH HEAVY ECONOMIC LOSS TO U.S. FIRM AND POLITICAL LOSS TO QUITO MAYOR

REFS: (A) EMB MEMO PLUS MEMCON, MARCH 24 (POUCHED TO ARA/EP),

(B) QUITO 777

1. SUMMARY: WESTINGHOUS SUBSIDIARY CEBOR NOTIFIED MAYOR OF QUITO BY LETTER DATED MARCH 24 (COPY POUCHED UNDER REF A) THAT FIRM WAS CEASING WORK ON PITA-TAMBO WATER-PURIFICATION PLANT PROJECT UNTIL MUNICIPALITY AGREED TO (A) PROVIDE STRONG CONTINUOUS POLICE PROTECTION AGAINST HARASSMENTS BY DISSIDENT LABOR FACTION, AND(B) COVER HEAVY COST ESCALATIONS CAUSED BY THESE HARASSMENTS. U.S.ABASED WESTINGHOUS/CEBOR EXECUTIVES HAVE BEEN IN QUITO THE PAST SEVERAL DAYS FOR DISCUSSIONS ON THESE PROBLEMS, AND IN FACE OF UNSATISFACTORY RESULTS ON MARCH 31 THEY DELIVERED LETTER TO QUITO MAYOR INFORMING HIM THEY CONSIDER THEIR CONTRACT FOR THE PROJECT AS HAVING BEEN TERMINATED BECAUSE OF MUNICIPALITY'S FAILURE TO MEET CERTAIN CONTRACTUAL OBLIGATIONS. LETTER ANNOUNCES THAT THE FIRM "WILL DO NO FURTHER WORK." MAYOR HAS REQUESTED EMBASSY TO USE "GOOD OFFICES" TO HELP REACH ACCOMMODATION PERMITTING

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FIRM TO STAY ON THE PROJECT TO BE COMPLETED. EMBASSY HAS DISCUSSED POLITICAL AS WELL AS COMMERCIAL FACTORS WITH

FIRM'S EXECUTIVES, BUT WE HAVE STRESSED WE DO NOT WISH TO INTERFERE IN DECISION WHICH THEY MUST MAKE ON BASIS OF THEIR OWN BEST INTERESTS. END SUMMARY.

2. MAYOR OF QUITO, SIXTO DURAN, AT HIS REQUEST CALLED ON DCM EARLY MORNING OF MARCH 30 TO ASK FOR HELP IN ASSURING THAT CEBOR (STILL KNOWN IN ECUADOR BY FORMER NAME C&C BOHRER) RESUME WORK ON PITA-TAMBO (ALSO KNOWN AS PUENGASI) WATER-PURIFICATION PLANT PROJECT. MAYOR BRIEFLY REVIEWED BACKGROUND TO THIS PROJECT. IN ADDITION TO BACKGROUND EMB REPORTED IN REF B, MAYOR STRESSED THAT WESTINGHOUSE HAD BEEN THE THIRD-LOWEST BIDDER FOR THIS PROJECT BUT AT IDB'S INSTIGATION WAS AWARDED THE BID; MAYOR WAS SUBSEQUENTLY OPENLY CRITICIZED FOR THIS AWARD, AND PUBLICLY OFFERED HIS RESIGNATION AT THAT TIME IN 1973. THE CITY COUNCIL SUPPORTED HIM, HOWEVER, AND HE STAYED IN OFFICE, BUT OF COURSE HAS BEEN ANXIOUS EVER SINCE TO DEMONSTRATE THAT AWARD WAS WISE. ON TWO OCCASIONS WHEN WESTINGHOUSE WAS LATE IN SHIPPING MAJOR ITEMS FOR PROJECT, MAYOR REQUESTED EMBASSY TO HELP SPEED UP SHIPMENTS, WHICH WE SUCCESSFULLY DID AND FOR WHICH HE REITERATED HIS GRATITUDE DURING CALL ON DCM.

3. MAYOR SAID THAT RECENT PROBLEMS AT PROJECT SITE WERE CAUSED MAINLY BY LABOR AGITATORS WHO WORK DIRECTLY FOR CEBOR (WORKERS FOR SUB-CONTRACTORS APPARENTLY HAVE NOT BEEN ACTIVE IN DISTURBANCES). MAYOR SAID HE HAD HEARD THAT WESTINGHOU/CEBOR MIGHT BE USING THIS LABOR ISSUE AS AN EXCUSE TO PULL OUT OF PROJECT WHICH HAS BEEN PROVING FINANCIALLY unrewarding FOR THE FIRM. HE COMMENTED THAT FOR THE CIVIL WORKS REMAINING TO BE DONE ON THE PROJECT ONLY ABOUT 50 WORKERS WILL BE REQUIRED AS COMPARED WITH THE MORE THAN 600 EMPLOYED UNTIL NOW. HE SUGGESTED THAT CEBOR MAKE ARRANGEMENTS WITH ITS ECUADOREAN SUB-CONTRACTORS UNDER WHICH ALL THE EMPLOYEES WHO CONTINUE ON THE PROJECT WOULD BE EMPLOYED DIRECTLY BY THE SUB-CONTRACTORS AND NOT BY CEBOR. HE COMMENTED THAT THIS WOULD PROBABLY BE HELPFUL BECAUSE THE AGITATORS SEEM TO BE POLITICALLY INSTIGATED AND THEIR TARGET SEEMS TO BE THE US FIRMS RATHER THAN THE ECUADOREAN FIRMS INVOLVED IN THE PROBTECT. (EMBASSY IS SUBMITTING SEPARATELY AN ACCOUNT OF

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RECENT LABOR DISTURBANCES, INCLUDING THOSE ON THIS PUENGASI/PITA-TAMBO PROJECT, WHICH TENDS TO SUPPORT MAYOR'S VIEW THAT THE AGITATION AT THIS PROJECT IS PART OF A POLITICALLY-MOTIVATED, BROADER-SCALE CAMPAIGN BY LEFTIST LABOR ELEMENTS.)

4. HE SAID THE COMPANY IS CLAIMING PAYMENTS TOTALLING SOME \$4 MILLION FOR THE MUNICIPALITY FOR COST ADJUSTMENTS PERMITTED UNDER THE "ESCALATION" CLAUSE IN THE PROJECT CONTRACT, BUT THAT SO FAR ONLY ABOUT \$1.3 MILLION OF THESE CLAIMS APPEARS TO BE JUSTIFIABLE UNDER THE CONTRACT.

5. THE MAYOR ASKED THAT THE EMBASSY INTERVENE IN WHATEVER WAY IT DEEMED BEST TO ASSURE THAT WORK ON THE PROJECT BE CONTINUED TO A SUCCESSFUL COMPLETION. THE DCM RESPONDED THAT HE WOULD GIVE CONSIDERATION TO THIS AND WOULD TRY TO BE HELPFUL.

6. LATER THAT DAY, MARCH 30, DCM AND ECONOMIC COUNSELOR WERE VISITED BY H.W. RIDLEY JR., US.-BASED VICE PRESIDENT OF CEBOR, WHO WAS ACCCOMPANIED BY A.M. LAMMON (SEE REF A). THEY SHOWED EMBOFFS TEXT OF LETTER DATED MARCH 25 RECEIVED FROM QUITO MAYOR IN RESPONSE TO THEIR LETTER TO HIM OF MARCH 24. MAYOR'S LETTER DENIED THAT MUNICIPALITY HAS CONTRACTUAL OBLIGATION TO PROVICE POLICE PROTECTION AGAINST LABOR DISSIDENTS AT PROJECT SITE, AND IN EFFECT SAID IT IS UP TO THE COMPANY TO SETTLE THE DEMANDS OF THE DISSIDENTS. THE EXECUTIVES SAID THAT IN DISUCCSSIONS HELD EARLIER MARCH 30 WITH MAYOR HE HAD TAKEN MORE POSTITIVE TONE BUT HAD NOT PUT FORTH ANY CLEAR-CUT RELIABLE ASSURANCES THAT COMPANY'S NEEDS COULD BE SATISFACTORILY MET FOR TRANQUILIOY AT THE SITE AND SETTLEMENT OF FINANCIAL CLAIMS. RIDLEY SAID COMPANY ACCORDINGLY HAD DECIDED THAT, BARRING UNFORESEEN AND UNEXPECTED SUBSTANTIAL IMPROVEMENTS IN ASSURANCES FROM MAYOR, COMPANY WILL TOTALLY AND FINALLY WITHDRAW FROM PROJECT. RIDLEY STRESSED COMPANY WOULD LOSE THE MORE THAN \$ 5 MILLION ALEADY EXPENDED, AND PROBABLY WOULD ALSO LOSE SOME PART OF THE OVER \$6 MILLION PERFORMANCE BOND IT POSTED FOR THE PROJECT (HE INDICATED THIS ADDITIONAL LOSS WOULD BE IN THE VICINITY OF \$1 MILLION); BUT COMPANY'S DECISION IS, SO TO SPEAK, "NOT TO THROW GOOD MONEY AFTER BAD." HE SAID THE WITHDRAWAL DECISION HAD BEEN ARRIVED AT VERY RELUCTANTLY, BECAUSE "WESTINGHOUSE HAS NEVER BEFORE WALKED AWAY FROM A PROJECT"; AND BECAUSE COMPANY HAS CONFIDENTIAL
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DEVELOPED HIGH REGARD FOR MAYOR SIXTO DURAN, WHO EVIDENTLY IS ONE OF THE MOST SINCERELY AND RELIABLY PRO-US. POLITICIANS IN ECUADOR, WITH GOOD PROSPECTS FOR REACHING NATIONAL OFFICE (PERHAPS EVEN THEPRESIDENCY)-- PROSPECTS THAT WILL PROBABLY BE MUCH DIMMED BY THE COMING FIASCO REGARDING THIS PROJECT.

7. RIDLEY AND LAMMON ALSO REPORTED NEWELEMENTS HAD BEEN INJECTED INTO THIS SITUATION, IN FORM OF WRITTEN REQUEST FROM GOE MINISTRY OF LABOR FOR COMPANY OFFICIALS TO APPEAR THERE THE FOLLOWING MORNING (MARCH 31).THEY UNDERSTOOD THE MINISTRY WOULD SEEK TO HAVE THEM ENTER INTO DISCUSSIONS THERE WITH REPRESENTATIVES OF THE DISSIDENT WORKERS. THEY ALSO UNDERSTOOD THERE WAS A POSSIBILITY THAT TWO OF THE COMPANY'S RESIDENT US. PERSONNEL MIGHT BE PICKED UP BY GOE AUTHORITIES AND HELD IN DETENTION (AS GOE OCCASIONALLY HAS DONE TO FOREIGN REPRESENTATIVES OF OTHER FIRMS INVOLVED IN LABOR DISPUTES). THEY SAID THEY HAD INSTRUCTED THEIR LEGAL REPRESENTATIVES TO INFORM THE MINISTRY THAT THE COMPPANY CONSIDERS IT HAS NO

OBLIGAION WHATEVER TO DEAL WITH THE DISSIDENT WORKERS, SINCE
THEIR STRIKE HAS BEEN OFFICIALLY DECLARED ILLEGAL BY THE
GOE, AND SINCE THE COMPANY HAS BEEN NEGOTIATING IN GOOD FAITH
WITH THE BONA FIDE REPRESENTATIVES OF THE WOR
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ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

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THEY ALSO TOLD EMBOFFS THEY HAD ADVISED THEIR
COLLEAGUES WHO MIGHT BE HELD IN DETENTION TO LEAVE ECUADOR
IMMEDIATELY; AND THEY COMMENTED THAT IF ANY OF THE COMPANY'S
EXECUTIVES WERE IN FACT PUT INTO DETENTION BY THE GOE THE
COMPANY WOULD REFUSE TO HOLD ANY FURTHER DISCUSSIONS WHATEVER
WITH THE MAYOR OR ANY OTHER ECUADOREAN AUTHORITIES AND WOULD
IMMEIDATELY, TOTALLY AND FINALLY WITHDRAW FROM ECUADOR.

8. THE DCM ASSURED THE VISITORS HE WOULD CONTACT THE MAYOR,
SEEK CLARIFICATION OF THE MAYOR'S AND THE GOE'S INTENTIONS,
AND WOULD KEEP THE COMPANY'S REPRESENTATIVES PROMPTLY INFORMED.
THE DCM TRIED WITHOUT SUCCESS TO REACH THE MAYOR THAT EVENING
AND FOLLOWING MORNING (BECAUSE, AS WAS LATER LEARNED, THE
MAYOR WAS ENGAGED IN DISCUSSIONS WITH ADDITIONAL CEBOR EXE-
CUTIVES WHO HAVE ALSO ARRIVED ON THE SCENE). HOWEVER, LATER
ON MARCH 31, DURING A MID-DAY RECEPTION AT THE AMBASSADOR'S
RESIDENCE, THE MAYOR TOLD THE DCM THAT HE IS TRYING TO WIN
SUPPORT BOTH FROM WITHIN THE CITY COUNCIL AND FROM WITHIN
THE GOE SO THAT STRONG REPRESENTATIONS COULD BE MADE TO THE
GOE MINISTRY OF GOVERNMENT (WHICH IS RESPONSIBLE FOR POLICE
SERVICES) TO AGREE TO PROVIDE THE PROTECTION REQUIED BY
THE COMPANY. THE DCM AND THE MAYOR APPROACHED THE GOE
MINISTER OF HEALTH, WHO WAS PRESEFT AT THE RECEPTION AND WHO
HAS A VESTED INTEREST IN HAVING THE PROJECT COMPLETED PROMPTLY
AND SATISFACTORILY, AND HIS SUPPORT WAS SUCCESSFULLY ENLISTED.

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THE MAYOR WAS HIGHLY AGITATED DURING THIS PERIOD AND STATED SEVERAL TIMES THAT THIS MATTER COULD CAUSE HIS RESIGNATION WITHIN A WEEK.

9. LATER THAT SAME DAY, MARCH 31, THE DCM AND THE ECONOMIC COUNSELOR WERE VISITED BY PAUL RUNDLE, THE US.-BASED PRESIDENT OF CEBOR, WHO WAS ACCCOMPANIED BY THE COMPTROLLER OF THIS WESTINGHOUSE SUBSIDIARY. RUNDLE REPORTED THAT HIS DISCUSSIONS WITH THE MAYOR THAT MORNING HAD CONFIRMED THE COMPANY'S IMPRESSIONS THAT THE MAYOR, ALTHOUGH EXTREMELY ANXIOUS TO SATISFY THE COMPANY'S DEMANDS, IS UNABLE TO PROVIDE THE REQUIRED

POLICE PROTECTION AND FINANCIAL ASSURANCES. RULDLE REPORTED THAT HE HAD ACCORDINGLY HANDED OVER TO THE MAYOR A LETTER DATED MARCH 31 DECLARING THAT THE COMPANY CONSIDERS THE CONTRACT ABROGATED BECAUSE OF THE MUNICIPALITY'S FAILURES TO LIVE UP TO THE PROVISIONS THAT THE MUNICIPALITY WILL "MAKE AVAILABLE TO THE COMPANY THE LANDS UPON WHICH THE PROJECT IS TO BE CONSTRUCTED." RUNDLE SAID THE FACT IS THAT THE LABOR DISSIDENTS ARE IN CONTROL OF THE PROJECT SITE, THAT EXECUTIVES OF THE COMPANY CANNOT EVEN ENTER THE SITE, AND THAT THE MUNICIPALITY HAS FAILED TO INDICATE THAT IT CAN RECTIFY THE SITUATION.

10. HE REAFFIRMED THE COMPANY'S REGRETS THAT ITS WITHDRAWAL FROM THE PROJECT WILL ENTAIL NOT ONLY HEAVY FINANCIAL LOSSES FOR THE COMPANY BUT ALSO POLITICAL LOSSES FOR THE MAYOR AND WILL PERHAPS HAVE OTHER POLITICALLY AND COMMERCIALLY ADVERSE RAMIFICATIONS ON US.-ECUADOREAN RELATIONS. HE SAID THE COMPANY HAS BEEN LOSING SOME \$100,000 A MONTH BY MAKING PAYMENTS TO ITS EMPLOYEES EVEN THOUGH THEY HAVE NOT BEEN ABLE TO DO ANY WORK ON THE SITE. HE SAID THAT, EVEN IF TRAN-

QUILITY WERE FULLY COVERED BY THE MUNICIPALITY, THIS PROJECT WOULD BE A HEAVY MONEY-LOSER FOR WESTINGHOUSE-CEBOR, AND FROM A STRICTLY COMMERCIAL POINT OF VIEW NO REASON REMAINS FOR THE COMPANY TO TRY TO STAY ON AT THE PROJECT. HOWEVER, HE SAID, THE COMPANY WOULD CONSIDER ENTERING INTO A SERVICE-CONTRACT ARRANGEMENT WITH THE MUNICIPALITY, UNDER WHICH WESTINGHOUSE/CEBOR WOULDSTAY ON AS A MANAGER AND TECHNICAL ADVISER FOR THE PROJECT, WITHOUT ANY ECUADOREAN

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EMPLOYEES OF ITS OWN, AND ON A STRAIGHT-FEE BASIS FOR THE SERVICES RENDERED. HE POINTED OUT THAT THE WITHDRAWAL LETTER HANDED OVER EARLIER THAT DAY TO THE MAYOR STATES IN ITS CONCLUDING SENTENCE THAT: " THE COMPANY WOULD, HOWEVER, BE PREPARED UNTIL APRIL 6, 1976, TO ENTER INTO NEGOTIATIONS WITH THE EMAP (THE MUNICIPALITY) TO ESTABLISH WHETHER A MUTUALLY ACCEPTABLE BASIS CAN BE FOUND FOR CONTINUED INVOLVEMENT OF THE COMPANY IN THE PITA-TAMBO WATER TREATMENT PLANT."

HE SAID HE DOUBTED THAT ANYTHING SUBSTANTIAL ALONG THESE LINES WOULD BE ACCOMPLISHED BEFORE THE DEADLINE, BUT THERE IS AT LEAST THIS ONE LAST FLICKERING POSSIBILITY.

11. THE DCM TOLD THE VISITORS THAT HE HOPED THAT THIS POSSIBILITY WOULD YET MATERIALIZE, AND THAT SOME ARRANGEMENT COULD BE WORKED OUT UNDER WHICH WESTINGHOUSE/CEBOR WOULD WITHDRAW ITS MARCH 31 LETTER AND AGREE TO SOME CONTINUED ROLE AT THE PROJECT. HE EMPHASIZED, HOWEVER, THAT THE EMBASSY IS MERELY PLAYING A "GOOD OFFICES" ROLE IN THIS SITUATION, AND HAS NO DESIRE TO INFLUENCE THE DECISION THAT THE COMPANY MUST MAKE ACCORDING TO ITS OWN PERCEPTIONS OF ITS BEST INTERESTS.

12. RUNDLE SAID HE UNDERSTOOD THAT THE MAYOR WAS HAVING AN EMERGENCY MEETING OF THE MUNICIPAL COUNCIL LATER THAT DAY (MARCH 31), AFTER WHICH THE MAYOR MIGHT INVITE HIM AND HIS WESTINGHOUSE/CEBOR COLLEAGUES FOR FURTHER DISCUSSIONS. IN ANY EVENT, HE SAID, HE WOULD KEEP THE DCM AND THE ECONOMIC COUNSELOR INFORMED OF DEVELOPMENTS. THE EMBOFFS REAFFIRMED THEIR WILLINGNESS TO PLAY A CONSTRUCTIVE DIRECT ROLE IF THE COMPANY DEEMED THAT NECESSARY OR USEFUL.

13. EMBASSY IS POUCHING SEPARATELY TO ARA/EP (J.F. KING) AND TO USDOC/BIC (T.K. BREWER) COPIES OF FIRM'S WITHDRAWAL LETTER DATED MARCH 31.

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